



Kentucky Tax Alert



A KRC PUBLICATION FOR THE TAX PROFESSIONAL

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Taxpayers Can Speed Refunds by Using Electronic Filing

Taxpayers who wish to receive their 1998 individual income tax refunds on a **ELECTRONIC TAX FILING** speedier basis should take advantage of KRC's electronic filing program.

KRC offers electronic filing in conjunction with the Internal Revenue Service (IRS). Electronic filing offers a faster turnaround for refunds than do paper returns mailed to KRC and processed manually. With electronic filing, taxpayers receive refund checks in an average of 21 or fewer days after their return is transmitted. Last year, electronic filers received refunds in an average of 10 to 12 days.

KRC offers direct deposit of refunds into taxpayers' accounts at banks or other financial institutions. Taxpayers may have their Kentucky refunds directly deposited whether or not they have their federal refunds directly deposited. Taxpayers may also choose separate accounts for direct deposit of federal and Kentucky refunds. Direct deposit is available **only** to electronic filers.

Taxpayers who file their Kentucky returns electronically must complete and sign Form 8453-K, Individual Income Tax Declaration for Electronic Filing. Form W-2/K-2, Wage and Tax Statement, and all supporting schedules must be attached to Form 8453-K. These forms must be mailed to KRC by the next work day after the Kentucky acknowledgment is received by the transmitter. Do not assume that an acknowledgment from the IRS represents an acknowledgment from KRC.

Balance due returns received prior to April 1, 1999, will be issued a *Statement of Liability* by KRC. Taxpayers should use the attached payment voucher to remit payment. However, taxpayers wishing to submit payment prior to receipt of the payment voucher or who file electronically after April 1, 1999, should submit payment using Form 740-V, Kentucky Electronic Payment Voucher. Payments and payment vouchers must be sent to KRC, postmarked on or before April 15, 1999, to avoid penalties and interest.

Electronic filing is available only through a paid tax preparer.

Taxpayers can obtain information on the status of their refund with KRC's Automated Refund and Tax Information System (ARTIS) by calling (502) 564-1600. ARTIS is automatically available for taxpayers who file returns electronically.

Scanning and Imaging System Will Bring Major Changes to Tax Processing

KRC awarded an \$8 million contract in December for a document scanning and imaging system which promises huge benefits for KRC, other state agencies, and everyone served by KRC and all state government operations participating in the project.

Scan-Optics, Inc., an information management and imaging solution systems firm headquartered in Manchester, Conn., was awarded the contract to modernize KRC's data processing operations.

This system, tentatively called the modernized front end (MFE), allows KRC to scan forms, extract data from the scans, and store images of documents instead of mounds of paper documents. It is part of the *EMPOWER Kentucky* Simplified Revenue Systems initiative, but its benefits extend far beyond KRC.

The project is scheduled to go online July 1, with two high-volume taxes—sales and use tax and withholding tax—the first to be processed by the system. These two tax types were chosen to be the first processed by the new system because they generate the highest dollar amounts of revenue of all taxes collected by KRC.

The MFE allows KRC to scan documents at the rate of 105 pages per minute. Three data-recognition engines are built into the system to ensure that information is captured accurately.

After scanning, the workflow portion of the system prioritizes tasks in data correction and data purification phases. The system reads tax returns and remittances, and allows for verification of data captured when transactions are out of balance. Examples of out-of-balance transactions are those in which the amount due does not match the amount of the remittance, or those containing mathematical miscalculations or other errors.

The system also incorporates a key-from-image process, which allows operators to make corrections and input information from the scanned image, rather than the paper return itself. This step increases production by approximately 35 percent.

The MFE splits the data into two distinct parts after initial processing. The raw data is sent to the host system for posting and final processing, while an image of the document is stored for archiving and retrieval.

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KRC Offers Extended Hours for Individual Income Tax Assistance

KRC will provide extended individual income tax assistance service by telephone from April 1, 1999, until the filing deadline of April 15, 1999. Taxpayers needing assistance should call (502) 564-4581. This telephone line will be open weekdays from 8 a.m. EST to 6 p.m. EST to assist individuals with preparing their individual income tax returns. KRC will provide general information and answers to technical questions.



During this two-week period, KRC's Individual Income Tax Assistance Section, 200 Fair Oaks Lane, Second Floor, Frankfort, KY 40620, will also provide in-person assistance in preparation of 1998 Kentucky individual income tax returns to walk-in taxpayers until 5:30 p.m. EST on weekdays. Individuals desiring assistance should bring completed copies of their 1998 federal income tax returns with all accompanying federal schedules.

Extended service is not available on Friday, April 2, 1999. The afternoon of Good Friday is a state holiday, and all state offices are closed. The Individual Income Tax Assistance Section will close at 11:45 on that date.

Taxpayers who wish to check the refund status of a previously filed 1998 Kentucky return should call KRC's Automated Refund and Tax Information System (ARTIS) at (502) 564-1600, rather than KRC's taxpayer assistance line.

This extended telephone and in-person assistance is also available at any of KRC's taxpayer service centers (TSCs) on Monday, April 12, 1999, through Thursday, April 15, 1999, until 6 p.m. local time at each TSC. Addresses and phone numbers are:

Ashland, 41105-0687

P.O. Box 687
134 16th Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42101-2040

P.O. Box 2040
1502 Westen Street
Telephone: (502) 746-7470
Fax: (502) 746-7847

Corbin, 40702-3298

P.O. Box 1298
Falls Road Plaza, Suite 5
1707 18th Street
Telephone: (606) 528-3322
Fax: (606) 523-1972

Hazard, 41702-0419

P.O. Box 419
233 Birch Street
Telephone: (606) 435-6017
Fax: (606) 435-6018

Hopkinsville, 42241-0695

P.O. Box 695
105 Hammond Plaza
4011 Ft. Campbell Blvd.
Telephone: (502) 889-6521
Fax: (502) 889-6563

Lexington, 40507-1556

301 East Main Street
Suite 500
Telephone: (606) 246-2165
Fax: (606) 246-2164

Louisville, 40202-2446

620 South Third Street
Suite 102
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky

Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, KY 41042-1385
Telephone: (606) 371-9049
Fax: (606) 371-9154

Owensboro, 42302-0128

P.O. Box 128
401 Frederica Street, Building C,
Suite 201
Telephone: (502) 687-7301
Fax: (502) 687-7244

Paducah, 42002-2336

P.O. Box 2336
555 Jefferson Street, Suite 306
Telephone: (502) 575-7148
Fax: (502) 575-7027

Pikeville, 41501-2913

5333 North Mayo Trail
Telephone: (606) 433-7675
Fax: (606) 433-7679

Pointers for Filing Amended Kentucky Individual Income Tax Returns

Individual income taxpayers who claimed a refund on their original 1998 tax return, but plan to file an amended 1998 return, should not do so until a refund check is received from KRC. If taxes are due, taxpayers should file an amended return by April 15, 1999, to avoid interest charges. Taxpayers must use the Amended Kentucky Individual Income Tax Return, Form 740-X, to correct errors on individual income tax returns.



KRC personnel often correct Kentucky returns during processing which may eliminate the need to file an amended return. However, if corrections are not made during processing of the returns, an amended return must be filed in order to make any corrections.

When filing an amended return, on page 1 of Form 740-X, write in the seven-digit validating number if available, which is stamped either on the face of the taxpayer's cancelled check for pay returns or printed on the face of the taxpayer's refund check. A blank space is provided on Form 740-X for the validating number.

Some of the most common reasons for filing amended Kentucky returns are to:

- report the receipt of an additional Form K-2, Wage and Tax Statement, after filing the original return;
- adjust the number of dependents or tax credits claimed;
- report additional income such as interest or income from partnerships;
- itemize rather than take the standard deduction;
- claim pension exclusions;
- correct a failure to claim carryover amounts from Schedule D;
- claim credit for taxes paid to other states; and/or
- change from joint to separate filing and vice versa.

Form 740-X is available at each Kentucky taxpayer service center (TSC), the Support Services Branch at (502) 564-3658, KRC's fax-on-demand service, *TaxFax*, by calling (502) 564-4459, or may be downloaded from KRC's Online TSC at www.state.ky.us/agencies/revenue.

For assistance with completing Form 740-X, call KRC at (502) 564-4581 or any TSC.

Court Case Updates

Controlled Substances Excise Tax—In Commonwealth v. Bird, Ky, 979 S.W.2d 915 (1998), the Kentucky Supreme Court held that the Kentucky controlled substances excise tax did not constitute criminal punishment for purposes of the double jeopardy clauses of the Kentucky and United States constitutions. Thus, previous payment of this tax by the two defendants in this criminal drug prosecution did not warrant the dismissal of the charges against them.

This decision was rendered on Nov. 19, 1998. The two defendants in this case have 90 days from that date to seek review of the Kentucky Supreme Court's decision by the United States Supreme Court.



Common Errors on Individual Income Tax Returns

Following is a list of the most common errors which appeared on 1997 Kentucky individual income tax returns and continue to appear on 1998 returns. If errors are avoided, processing time is minimized and refunds, if due, are received more quickly.



- ♦ **Wrong Standard Deduction Taken**—Many taxpayers are not taking the 1998 standard deduction of \$1,200, but instead continue to use last year's deduction of \$900. The standard deduction gradually increases each year until it reaches \$1,700 for the 2000 tax year and thereafter.
- ♦ **Labels Used Improperly**—Taxpayers should use the preprinted labels received with their tax forms or on postcards. Taxpayers should also make sure they place the labels in the proper locations. One label is intended for the return itself; the other should be used on the envelope in which the return is mailed to KRC.
Taxpayers should verify the information printed on the labels. If the address is incorrect, mark through it and write in the correct address. If the name or taxpayer identification number is incorrect, do not use the label.
Preparers should ensure that the correct label is attached to the proper return. Some returns are received with other taxpayers' labels attached.
Use of preprinted labels does not increase the chances for an audit. Instead, it speeds processing and the mailing of any refund due the taxpayer.
- ♦ **Low Income Credit**—Taxpayers are using the Kentucky taxable income instead of the Kentucky adjusted gross income (AGI) as the basis for computing the low income credit. For married couples, the low income credit is based on the combined Kentucky AGI. Many taxpayers fail to take advantage of this credit when entitled to it.
- ♦ **Child and Dependent Care Credit**—Many taxpayers compute the credit incorrectly. The Kentucky child and dependent care credit is 20 percent of the federal child care credit, **not** the child care expense.

- ♦ **Underestimated Tax Penalty and Use of Form 2210-K**—Preparers should calculate any underestimated tax penalties for their clients and instruct them to pay the penalty when they file their returns. The minimum penalty is \$25. Underestimated tax penalties must be reported on Form 2210-K, which should be attached to Form 740. If Form 2210-K is attached, the appropriate box on Form 740 must be checked.
- ♦ **Withholding Statements not Attached**—Taxpayers should attach wage or other withholding statements to their returns. Be sure to attach Kentucky copies of the wage and tax statements. Local statements which do not list Kentucky withholding are being sent in error. Staple the statements to the top page only of the return.
- ♦ **Withholding Amounts Reported in Error**—Withholding amounts reported on tax returns should match the Kentucky amounts reported on withholding statements.
- ♦ **Returns not Signed**—Taxpayers should be sure to sign their returns. Unsigned returns are sent back to taxpayers, causing delays in processing and payment of refunds which may be due.
- ♦ **Copies of Federal Returns not Attached**—When applicable, taxpayers must attach copies of federal returns and schedules. Make sure that the original Kentucky form is sent to KRC and the original federal return with schedules is sent to the Internal Revenue Service. KRC is receiving original copies of federal returns which are being mailed in error.
- ♦ **Wrong Envelope Used**—Taxpayers should use the blue envelope for refund returns and the yellow envelope for pay returns.
- ♦ **Tax Tables**—Taxpayers should recheck the tax table to ensure the correct line is used for their taxable income and number of tax credits claimed, and enter the correct amount of tax in the proper place on the return.
- ♦ **Incorrect Mathematical Calculations**—Taxpayers should review their calculations to ensure the totals are correct.

For assistance in completing your Kentucky individual income tax return, contact the Individual Income Tax Assistance Section, (502) 564-4581, or any of KRC's 11 taxpayer service centers.

KRC Participates in Utility Tax Policy Task Force

House Joint Resolution 89, passed by the 1998 General Assembly, created a task force on utility tax policy to direct a comprehensive study of the taxation of public service companies that supply utility service to residents of the commonwealth. The task force began in October 1998 and meets on a monthly basis. KRC, along with several other state agencies, is providing staff support to the task force. Information regarding meeting times and past conference proceedings can be found at <http://ofmeaweb.fi.state.ky.us/UtilityTax/taskforce.html>

If you do not have access to the Internet or would like additional information, please contact KRC's Division of Tax Policy at (502) 564-6843.



Good Friday Office Closure

Pursuant to KRS 18A.190, all KRC offices will be closed the afternoon of Friday, April 2, 1999, in observance of Good Friday.

Tax Refund Information Available by Phone

Information on Kentucky individual income tax refunds is available 24 hours per day through KRC's Automated Refund and Tax Information System (ARTIS). Call (502) 564-1600 from a touch-tone telephone to verify KRC's receipt of the return or when the refund was mailed.



To use ARTIS, taxpayers must know the Social Security number listed first on the label or return, and the exact whole-dollar amount of the refund.

Acknowledgment of receipt of a return is available for taxpayers using both labels provided by KRC on their tax form packets or on postcards. Labels were provided for the envelope and the tax return.

For taxpayers not using both labels, acknowledgment is not available until the return is processed. These taxpayers should wait eight weeks after mailing their return before calling ARTIS.

Callers who do not receive a refund mailing date from ARTIS should allow seven days before calling again.

ARTIS is automatically available for taxpayers filing their individual income tax returns electronically.

Scanning and Imaging (continued from page 1)

Although the MFE is housed at KRC's Perimeter Park West location on Louisville Road in Frankfort, it is an enterprise-wide solution. The system will eventually be used to scan forms, extract data, and archive documents of several state agencies. The first non-KRC document identified for incorporation into the system is the Workforce Development Cabinet's highest-volume form, the Employer's Quarterly Unemployment Wage and Tax Report (UI-3).

This new system works in conjunction with high-speed mail opening and processing equipment installed in October. Although the MFE and the mail processing equipment are separate systems, they work together to speed the opening and processing of KRC documents, and forms from other state agencies. Since the MFE requires a great deal of document preparation, the mail equipment makes the document prep process much easier.

State government and Kentucky residents alike will enjoy benefits from the MFE. The MFE allows faster processing of documents and ensures cleaner data, which are advantages for state government operations.

Taxpayers will enjoy better service as a result of the system. When taxpayers call with questions about their returns, KRC personnel will be able to immediately call up an electronic copy of the return on their computer workstations. This eliminates the old, time-consuming process of requesting and retrieving the stored paper return. Taxpayers will also receive refunds faster due to the new system.

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Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

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Guidelines for Requesting Extensions to File 1998 Kentucky Individual Income Tax Returns and Submitting 1999 Estimated Payments

Taxpayers may obtain an extension of time within which to file their Kentucky income tax returns by filing an Application for Extension of Time to File, Form 40A102. KRC also accepts a federal extension. If tax is due, attach a check made payable to the Kentucky State Treasurer to either Form 40A102 or a copy of the federal extension and mail by April 15, 1999. (A copy of the application for federal extension should not be mailed to KRC on April 15, 1999, unless tax is due.) When the Kentucky individual income tax return is filed, a copy of Form 40A102, the automatic federal extension, or approved federal extension must be attached to the Kentucky individual income tax return in order for a taxpayer to avoid a late filing penalty.

Because an extension of time to file a return does not extend the time to pay a tax liability, interest will accrue on the tax liability unpaid as of April 15, 1999, until paid. In addition to interest, KRC will assess a late payment penalty. If a taxpayer can demonstrate that the delay in filing the return or remitting the payment is due to reasonable cause, penalties—but not interest—may be reduced or waived.

Individual income tax filers are also reminded that the first quarterly estimated payment for taxable year 1999 is due April 15, 1999.

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

KRC can be found on the World Wide Web at
<http://www.state.ky.us/agencies/revenue/revhome.htm>

To provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

Kentucky Revenue Cabinet
 Mission Statement

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